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THE COTTON SITUATION  
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Summary

The cotton situation during the past month, according to the Bureau of Agricultural Economics, was again characterized by continued high domestic mill consumption, small exports and foreign consumption of American cotton, high spot prices of American cotton relative to foreign growths and relative to futures quotations, and small stocks of "free" American cotton despite the record total domestic stocks.

Domestic mill consumption in February was one-third greater than in February last year and with one exception was the largest for that month since 1929. Domestic consumption from August through February was one-eighth larger than a year earlier and with one exception the largest for the period in 10 years. Unofficial reports indicate that mill activity during the first 3 weeks of March continued at a rate equal to or possibly higher than in February. In late February and early March manufacturers' sales of unfinished cotton cloth are said to have materially exceeded output, but in the 2 weeks ended March 23 they were apparently less than production.

During the first 20 days of March, exports of American cotton were about 28 percent less than in the corresponding period last season. In February they were one-third less than in February last year, only one-half as large as the preceding 10-year February average of 551,000 bales, and the smallest for the month in more than 50 years. For the 7 months ended February, domestic exports were 42 percent less than in the first 7 months of last season.

Foreign consumption of American cotton so far this season has been much smaller than usual but much larger relatively than the exports of American cotton.

During the first 7 months of this season, foreign mills consumed about one-sixth less American cotton than in the corresponding period last season and the smallest quantity for any like period in 20 years. As a result of the much greater decline in exports than in consumption, foreign stocks of American cotton now are low for this time of the marketing season, even relative to the prevailing low rate of consumption.

Foreign mill consumption of foreign cotton from August to January this season was somewhat smaller (when expressed in bales of uniform weight) than in the corresponding period last season or the season before. In comparison with the average for the past 10 years, however, there was an increase of 28 percent, according to estimates of the New York Cotton Exchange Service. With the exception of the past 2 years, foreign mills have used more non-American cotton so far this season than in any like period in history.

Recent reports from England and France indicate some improvement in sales of cotton textiles and slightly higher mill activity. In the other larger European countries conditions apparently showed little change as compared with the past month or two. In the Orient, mill activity in February remained about the same as in January.

During the 10 days ended March 6, a comparatively sharp advance in the domestic price of spot cotton raised Middling 7/8 inch in the 10 designated markets to over  $8\frac{3}{4}$  cents, the highest level reached thus far this season. By March 24, however, practically all of this advance had been canceled. Spot prices continued high relative to futures contracts, particularly new crop contracts.

In Liverpool the price of American cotton on March 17 was the highest in relation to the price of Indian in more than 4 years even though the indicated supply of Indian cotton is the smallest in 5 years. On the same date the price of American Middling 7/8 inch was the highest relative to Egyptian Uppers for more

than 2 years even though the indicated total supply of Egyptian cotton for the current season was considerably smaller than for either of the past 2 seasons. The high price of American cotton in relation to foreign growths is largely attributable to the second smallest "free" world stocks (stocks other than those in Government loans) of American cotton in more than 15 years. Such stocks on March 1 were about one-third less than the March 1 average for the past 10 years of 7,400,000 bales.

### PRICES

#### Price advance of early March largely canceled

Following many weeks of exceptional stability, domestic prices of spot cotton advanced about  $\frac{1}{4}$  cent per pound between February 24 and March 6. On the latter date, as well as on March 10, Middling  $7/8$  inch in 10 designated markets was quoted at 8.80 cents, a new high for the current season but only 0.05 cents above the previous high reached on November 14. This comparatively sharp but brief advance was followed by a slight easing of spot prices which canceled most of the advance leaving Middling  $7/8$  inch in the 10 markets on March 24 at 8.54. This was 0.02 cent higher than one month earlier and  $1/3$  cent below the average for March last year.

On March 24, Middling  $7/8$  inch cotton in the 10 designated spot markets averaged 0.61 cent above the price of New York futures contracts for July delivery and 0.97 cent above the price of October contracts. In March last year and in the preceding 10 years the 10 market spot price averaged, respectively, 0.02 and 0.20 cent below the current price of July New York futures contracts and 0.09 and 0.07 cent below New York October futures.

The stability of prices during recent months as well as the advance to above  $8\frac{3}{4}$  cents in early March appears to have been attributable to Government loans. Despite the drastic decline in exports, the comparatively large domestic consumption so far this season and the large movement of cotton into Government loan stocks have greatly restricted current domestic stocks of "free" cotton. On March 1, Government-loan stocks were equal to about two-thirds of the total United States stocks of American cotton with the remaining domestic stocks (of "free" cotton) the third smallest in 15 years. World stocks of "free" American cotton were the second smallest in more than 15 years. The small "free" domestic stocks constitute an important price strengthening factor. On the other hand, the exceptionally large total world stocks of cotton; the increasing substitution of synthetic fiber for cotton, especially in Germany, Japan and Italy; and the uncertainties as to international politics and military developments are important factors which have tended to prevent cotton prices from rising. An additional factor of some importance has been the possibility that very much of a rise in domestic prices might have induced farmers to withdraw sizable quantities of their 1938 crop from Government-loan stocks, thereby increasing the available supply.



Price of American further increased relative to foreign

On March 17 the Liverpool price of American cotton was the highest in relation to Indian since December 1934. The average price of 3 types of Indian (Oomra, Broach and Sind) was equivalent to only 71.9 percent of the average price of American Middling and Low Middling. In February, the corresponding ratio averaged 75.6, in August 81.0 and in March last year 82.5. The average for the 10 years ending July 1937 was 78.3.

On March 17 the Liverpool price of Egyptian Fully Good Fair Uppers was equivalent to 112.8 percent of the price of American Middling 7/8 as compared with 115.4 in February and 126 in August. In March last year Egyptian Uppers averaged 120.6 percent of the price of American and not since February 1937 has the monthly average ratio been as low as the March 17 ratio.

The Liverpool price of Brazilian Fair Sao Paulo has shown little change in relation to the Liverpool price of American Middling since the early part of the season, fluctuating between 95.1 and 96.9 percent of the price of American Middling. In August this ratio averaged 96.9 and the 10-year average, ending with July 1937, was 97.7.

Cotton: Spot price per pound, specified growths at Liverpool,  
specified periods

Season, month or day	American		Indian		Egyptian		Brazilian	
	: Av. 3 types 1/		: F. G. F. Uppers		: Fair, Sao Paulo			
	: Middling: Low		: As a %		: As a %		: As a %	
	: 7/8 : Mid-		: Actual: of Ameri-		: Actual: of Ameri-		: Actual: of Ameri-	
	inch	dling	can 2/		can		can	
					Middling		Middling	
10-yr. av.:	Cents	Cents	Cents	Percent	Cents	Percent	Cents	Percent
1927-28 to								
1936-37 :	14.50	13.60	10.88	78.3	17.12	117.9	14.08	97.7
1936-37 :	14.62	13.16	11.07	79.8	17.40	119.0	14.12	96.6
1937-38 :	10.31	8.78	8.02	83.9	13.10	126.7	10.18	98.7
1938-39 :								
Aug. :	9.76	8.44	7.38	81.0	12.30	126.0	9.46	96.9
Sept. :	9.59	8.29	7.07	79.1	12.27	128.0	9.27	96.7
Oct. :	10.25	8.96	7.22	75.0	13.03	127.1	9.78	95.3
Nov. :	10.04	8.81	7.28	77.3	12.63	125.8	9.63	95.9
Dec. :	10.02	8.56	7.16	77.0	11.89	118.6	9.54	95.1
Jan. :	10.10	8.64	7.13	75.9	11.50	113.9	9.61	95.2
Feb. :	10.02	8.55	7.02	75.6	11.56	115.4	9.53	95.1
Mar. 3 :	10.33	8.87	7.07	73.6	11.74	113.6	9.84	95.3
10 :	10.55	9.09	7.15	72.8	11.98	113.6	10.07	95.5
17 :	10.28	8.82	6.87	71.9	11.60	112.8	9.79	95.2
24 :	10.07	8.60	6.89	73.8	11.51	114.3	9.58	95.1

Compiled from reports of the Liverpool Cotton Exchange except for the last two weeks which are from cables and reports of the New York Cotton Exchange. Prices were reported in pence per pound and converted to cents per pound at current rates of exchange.

1/ Includes Fully Good Broach, Fine Oomra # 1, and Fully Good Sind.

2/ Average of American Middling and Low Middling.

As will be seen from the above table, American cotton prices declined considerably in relation to foreign growths from March 17 to March 24, but still remained relatively high.

In view of numerous inquiries, and the fact that many people apparently do not have a very clear understanding of the significance of comparative prices of various growths and qualities of cotton, it is believed desirable to indicate the factors influencing the changes in these relative prices from time to time. One of the important factors resulting in changes in the relative price of American and foreign cotton, or in the comparative prices of any two qualities of cotton, is the relative quantities of such cottons available in world marketing channels. Important changes in these relative quantities from one season to another tend to result in material changes in the comparative prices of these growths or qualities, especially if they differ materially in quality or spinning utility. However, as prices of cotton of one growth (or quality) increase or decrease in relation to prices of other growths (or qualities), the consumption of the relatively cheap cotton tends to increase in relation to consumption of the other cottons. Such shifts in consumption tend to readjust the comparative prices of these growths (or qualities) in line with the differences in their quality or spinning utility. As a result, over a period of years the proportion of the total cotton consumed which is of a given kind or quality varies directly with the ratio of the supply of that cotton to the total supply, even though the price of it shows little or no net change relative to the price of other cottons.

In other words, over short season to season periods substantial changes in the relative supplies of cotton of different growths, particularly when materially dissimilar in quality, tend to result in changes in their comparative prices, but over longer periods adjustments are made in consumption so that both the relative and absolute amounts of the various growths consumed become adjusted to their corresponding supplies. Hence, over periods of time long enough to allow these adjustments, the relative quantities of American and foreign cotton consumed depend upon supplies available, whereas the average price differentials depend upon differences in the spinning utilities. This is true not only of cottons of different growths in so far as they represent differences in quality, but also of cottons of different quality (or spinning utility) in the American crop and in the crop of any other country.

As indicated, the average differences in prices between any two cottons in the same market are dependent upon the comparative usefulness of these cottons. For instance, Egyptian Fully Good Fair Uppers is longer in staple length than American Middling 7/8 inch and for this reason (and possibly others) the finished products made from Egyptian Uppers are more desirable, either because of their fineness, luster, or serviceability, than the products made from American Middling 7/8 inch cotton. Consequently, the Liverpool price of Egyptian Uppers has almost invariably been higher than the Liverpool price of American Middling 7/8 inch, irrespective of the changes in the relative supplies of these two cottons and during the past 10 years has averaged about 18 percent higher.



## EXPORTS

Domestic exports lowest in February since 1885

Exports of American cotton of 264,000 running bales in February were 135,000 bales, or 34 percent less than in February last year, 52 percent less than the 10-year 1928-37 February average, and the smallest for the month since 1885. Despite the low level in February exports were considerably higher in relation either to the corresponding month last season or the 10-year average for the corresponding month than were exports in December and January. In the 2 months combined exports were 53 percent smaller than a year earlier, 57 percent smaller than the average for those months of the preceding 10 years and were the smallest for the period since 1872-73. Trade reports indicate that for the period March 1 to March 20 exports were about 28 percent less than in the corresponding period last year.

Domestic exports of 2,456,000 bales from August through February were 42 percent less than the 4,231,000 bales exported in the corresponding 7 months of last season and 51 percent less than the preceding 10-year August to February average. The total for the first 7 months of the current season was the smallest for any corresponding period since 1881-82.

Exports from India and Brazil are larger; from Egypt smaller

From August 1 to March 1 a total of 1,523,000 running bales (of 400 pounds) of cotton had been exported from India according to data from the New York Cotton Exchange. This represented an increase of 62 percent over exports during the corresponding period last season and were about one-third smaller than the large exports of the corresponding period of 1936-37. During February exports which totaled 276,000 bales were 5 percent larger than in the corresponding period last season but this increase was much less than the increase during the early part of the season when exports were being made largely from the record high stocks of cotton in India.

The 104,900 bales (of 478 pounds) of cotton exported from Brazil in December exceeded the 59,000 bales exported in December 1937 by 78 percent, were 50 percent larger than exports in December 1936 and two-fifths larger than in December 1934, the previous high for December. The large December exports together with record high exports in August brought the total exports for the first 5 months of the current season, of 535,300 bales, to 21 percent above the previous record high for these months established last season.

The 103,000 running bales (of about 750 pounds) of cotton exported from Egypt during the 4 weeks ended March 15 exceeded exports in the corresponding period last year by about 39 percent. But total exports from August 1 to March 15 were less than in the corresponding period last season by almost 100,000 bales, or 12 percent, and still smaller in relation to the corresponding period of the 1936-37 season.

## DEMAND AND CONSUMPTION

World: Consumption of American, Indian and Egyptian reduced: Sundry growths increased

A total of 5,639,000 running bales, regardless of weight (which average about 500 pounds) of American cotton was consumed by mills of the world from August through January this season, according to the report released by the International Federation of Master Cotton Spinners' and Manufacturers' Associations. This was slightly less than the 5,755,000 bales reported as having been consumed in the corresponding period last season and the second smallest for the period since 1920-21, or in 18 years.

The 2,653,000 running bales (of about 400 pounds) of Indian cotton reported as having been consumed during the first half of the current season represented a decline of 16 percent from the 3,168,000 bales reported for the corresponding period last season. This was the smallest world consumption of Indian cotton for these months since 1933-34 despite the record high consumption by mills in India.

The world consumption of Egyptian cotton for the first half of the current season was estimated at 567,000 running bales of approximately 750 pounds. This was 8 percent less than for the corresponding period last season and the smallest for the period since 1932-33.

The world mill consumption of other growths (the so-called sundry growths) was reported at 4,845,000 running bales. This was about 1 million bales or one-fourth larger than the figure reported the first half of last season, but because of the wide variation in the weight of the various types of cottons included in these figures the actual quantity of such cotton may not have increased to the same extent as was indicated by these running bale figures.

The world consumption of all growths as reported by the International Federation in running bales, irrespective of weight, totaled 13,704,000 bales compared with 13,424,000 bales in the like period last season. Due at least in part to the differences in bale weights these estimates differ considerably from the preliminary estimates recently released by the New York Cotton Exchange Service. This agency estimated from August through January the mills of the world consumed 14,034,000 bales (American running bales, counting round as half bales and foreign in bales of approximately 478 pounds net weight) compared with 14,281,000 bales in the first 6 months of last season.

UNITED STATES: February mill consumption second highest in 10 years

In February the mills of the United States consumed a total of 562,000 running bales of cotton compared with 592,000 bales in January and 427,000 bales last year, according to a report of the Bureau of the Census released on March 14. With the exception of February 1937 when consumption totaled 666,000 bales, domestic mills used more cotton in February this year than for any February since 1929. The average daily rate of consumption in February



was nearly 28,500 bales compared with 27,200 bales in January, and was the highest average daily rate for any month since June 1937. Unofficial reports indicate that during the first 3 weeks of March domestic mill activity was equal to or somewhat higher than in February. During February manufacturers' sales of unfinished cotton cloth were probably somewhat below production, but toward the end of February and in the first part of March such sales were considerably larger than output. During the 2 weeks ended March 23, however, sales were said to have again dropped considerably below production.

Total domestic consumption of 3,954,000 bales from August through February was 450,000 bales, or 13 percent, larger than in the first 7 months of last season. It was 10 percent larger than the average for these months during the 10 years ended 1936-37 and with the exception of 1936-37 the largest for the period since 1928-29. Should the average rate of consumption per working day be the same during the last 5 months of this season as the average from August through February, total consumption for the current season would exceed 6-3/4 million bales. However, the average rate per day during the last 5 months of the season is usually somewhat smaller than that of the first 7 months. Nevertheless, it appears likely that unless there is a substantial decline in general business conditions, domestic consumption for the season should easily total between 6-1/2 and 6-3/4 million bales.

FOREIGN COUNTRIES: Consumption of American for half year dropped 16 percent;  
lowest in 20 years

All foreign countries combined consumed only 2,307,000 running bales of American cotton during the first half of the current season according to data released by the International Federation based on returns from cotton mills throughout the world. This was 16 percent less than the 2,770,000 bales reported for the corresponding period last season and 37 percent less than the average for the corresponding period during the 10 years ending 1936-37. Not since 1918-19 has the consumption of American cotton in foreign countries during the first half of the season been as small as in the current season. At that time Germany and her Allies consumed little or no American cotton because of their inability to import cotton (In 1918-19 no cotton was exported from the United States to Germany and even in 1919-20 exports of American cotton to Germany totaled only 436,000 bales compared with more than 1-1/4 million bales in each of the 2 following seasons.).

Of the net decline of approximately 450,000 bales in the total foreign consumption of American indicated above, 225,000 bales occurred in Asia and 185,000 bales in Europe. The greatest absolute decline for any one country was in Japan where consumption was reported at 390,000 bales compared with 650,000 bales last season, a decline of 40 percent. In Germany, including Austria, consumption of American cotton was reported at 179,000 bales from August to January this season compared with 189,000 bales in the corresponding period last season. A somewhat similar decline occurred in Italy and France while in Great Britain the percentage decline was about three times as great.

Directly associated with, but not entirely responsible for, the sharp decline in foreign consumption of American cotton in recent years is the marked increase in production and consumption of foreign growths. From August to January this season mills outside the United States consumed about 8-1/4



million bales (of approximately 478 pounds net weight) of cotton produced outside the United States, according to estimates of the New York Cotton Exchange Service. This was slightly less than in the corresponding period in each of the 2 preceding seasons, but the largest with those exceptions in history, and 28 percent larger than the average for the like period during the last 10 years. Consumption of foreign cotton the first half of the present season was one-fifth larger than the total consumption for the entire 1920-21 season, the first year for which comparable estimates are available. Foreign consumption of American cotton for the 6 months ending January 1939, on the other hand, was less than half as large as for the 1920-21 season.

EUROPE: 1/ Several factors contribute to reduced construction and imports, especially of American cotton this season

The cotton situation in Europe through the first half of the 1938-39 season has, by and large, been conditioned by four factors. These are (1) the carry-over of unused stock of cotton and goods from the previous season, (2) the trends of general world trade, (3) an extraordinary raw cotton price situation, and (4) an anxious state of international relations. In a number of the free-exchange countries, cotton consumption in the 1936-37 season and in the first half of 1937-38 reflected something more than consumers' current requirements of cotton goods. While in part it may have represented a restoration of depleted inventories and wardrobes, it was unquestionably also affected to some extent by speculative buying of goods in anticipation of further price advances. Very early in 1938, however, the textile demand situation especially for the exporting countries turned sharply unfavorable, more or less concurrently with a down-turn in general world trade following the upward trend from the third quarter of 1932 to the last quarter of 1937. Caution became pronounced in the placing of new textile orders, delivery instructions on contracts for goods were withheld, export volume fell away, and production schedules in many cases had to be cut. Despite substantial reductions in output in the latter part of 1937-38 the current season opened in August 1938 with considerable stocks of yarn and goods in the channels of trade.

The harsh experiences of the previous season and the doleful state of textile demand put spinners under pressure to reduce costs by all means possible, including the use of cheap cotton in order to minimize losses and to meet competitors' prices in the contest for new orders. With prices in the United States supported by Government loans and with Egyptians and East Indians also strongly held, exotic cottons moved freely into consumption while at the same time new crop American cotton was drawn heavily into the loan. With the emphasis being given by spinners to competitive growths, the markets began by mid-October to show evidences of belief that American loan-stocks might continue increasing indefinitely unless the existing agricultural program were modified. The large and rapidly increasing loan stocks in conjunction with the relatively high loan rates caused current prices of spot American cotton to be considerably higher than might otherwise have been expected in view of the large supplies of cotton. This and the uncertainty as to how long Government loan stocks would be permitted to increase, together with the unwillingness of traders to accept the risks of lower prices in the event changes in the United States agricultural program should bring these about, resulted in considerable price discounts on contracts for later deliveries,

1/ Based largely upon a report from Agricultural Commissioner Arthur W. Palmer, London, dated March 17, 1939, except as noted.

and especially for deliveries in the season ahead (1939-40). Under these new price conditions, hedging operations became extremely difficult for persons holding stocks of actual cotton and to an unusual degree, buying of textiles as well as of raw cotton tended to become a hand to mouth operation. Stocks of American cotton in Europe were pressed for sale on a hesitant market and against the competition of cheap exotics at prices often below those at which they could be replaced by fresh imports from the United States, and imports were largely restricted to special qualities which could be immediately applied to mill orders.

Market caution was heightened, moreover, through the first half of the season by a series of disturbing episodes in the field of international politics which, although of earlier beginnings, reached a critical stage in September and which have since continued with lesser intensity but in almost rhythmical sequence.

Major importing countries operating under a controlled economy, notably Germany and Italy, have found conditions unfavorable to cotton imports. In Germany although a heavy demand for textiles is reported, the replacement of an active balance of foreign merchandise trade by a passive balance attributable at least in part to large expenditures for military purposes and the difficulties of finding the necessary means of payment have encouraged the utilization of the stock carried over and still further increases in the production and consumption of synthetic fibers. In Italy a program aimed to bring imports into balance with exports has brought a tightening of restrictions on domestic sales of cotton goods unmixed with synthetic fibers, while at the same time in cotton textile export trade, the source of exchange for raw cotton purchases, has declined.

#### United Kingdom

February brought a fair measure of encouragement to the British cotton industry. While it is probably too early to say that it marks the beginning of definite recovery, at least in a number of respects the month afforded welcome signs of relief from the depressed state of affairs which prevailed through the first half of the season, and which in fact began well back in the preceding season. Although no statistical information concerning the actual volume of new business is accessible, an impression exists that in the yarn and cloth trade not only were orders more numerous but also that there was a tendency to deal in larger quantities and to extend commitments a little farther into the future than has been true for some months. There seems to be agreement that sufficient orders have been booked to assure the existing rate of activity for some little time ahead, and reports also indicate that some machinery heretofore idle has recently been started. By the end of February mill activity, according to unofficial estimates, had increased to between 55 and 60 percent in the weaving branch and to 70-75 percent in the spinning section. (Full-time operation of mills in working order on a single shift of 48 hours = 100).

While the uncertainties which in recent months have been the chief causes of concern obviously had not been removed, they seemed in February to recede somewhat from the foreground. In particular, the anxieties growing out



of international political relations appear to have been somewhat diminished, due possibly to the more confident attitude adopted by the press, to the British Government's plan announced in January for insurance against war hazards, or to a combination of these and possibly other factors. With respect to the price situation, a good deal of confusion is evident in the markets as to the meaning of recent legislative developments in the United States, but in various quarters these have been construed as indicating that releases of loan cotton in significant quantities at less than the full amount of the advances and accumulated charges are unlikely for some time to come - a conclusion which for the time being has tended on the one hand to allay fears of a sudden near-term fall in the prices of cotton and goods, and on the other to concentrate attention on the reduced supplies of goods in trade channels, and on the difficulty of purchasing some of the specially desired qualities of cotton at existing price levels. However, with the advance of some 24 penny points from the mid-February low in Liverpool prices of American cotton, the tendency of yarn and goods buying to expand was especially noticeable. Buying has possibly also been encouraged somewhat by the implication of increasing prices to follow the enactment of the Cotton Industry Enabling Bill.

While there has been some broadening of export inquiry, market comment attributes the increases in cotton textile activity both of trading and production more particularly to the home section, in which general underlying conditions remain fairly favorable. Business activity in the United Kingdom according to the Economist Index made an encouraging gain from  $100\frac{1}{2}$  in December to 104 in January (average for 1935 = 100). Employment in February followed with a substantial upturn. The sustaining influence on internal trade exerted by the rearmament program seems on the way to being demonstrated. Expenditures for Air, Army and Naval services in the current year are put at £405 million, or just under 2 billion dollars. An increase in the year ahead to £580 million, or slightly over 2.7 billion dollars, is programmed. Indications that the increase of expenditures may be financed by borrowing and with no significant increase in tax demands are interpreted as generally favorable to business and employment prospects in the near term.

In the export field, good trade with the Dominions, especially Australia, is noted and important negotiations have been in progress on both yarn and goods for India, but little effective contribution to piece goods demand has apparently yet been made by India. Piece goods exports of 108.4 million square yards in February, after making allowance for the lesser number of business days, were not quite up to the rate of January but about equal in total to those of August. Although export volume was declining precipitately a year ago, the figure is about 10 percent under that of February, 1938. Yarn exports of 11.6 million pounds in February, though exceeding the total of any month of 1938 except March and November, were likewise a little under the January rate. Nevertheless, in the recent more cheerful atmosphere, it has been possible to see potential betterment in the export situation.

Qualifying somewhat the more favorable factors in the British cotton textile situation, however, must be set the prospect of increases in textile costs, which already bear heavily on export trade. Anticipating the early enactment of the Cotton Industry Enabling Bill, about 100 firms in the dyeing section have adopted voluntarily a new minimum price agreement providing for a general increase of about 12 $\frac{1}{2}$  percent in dyeing charges. Price control schemes for the spinning and manufacturing sections to be instituted under statutory authority of the bill if and when it is enacted, are already in advanced stages of planning. That these contemplate increased prices of yarn and gray cloth is patent from statements of their proponents as well as from the very unsatisfactory margins earned on much of the yarn production and the severity of price competition among weaving enterprises. While some speculative buying in anticipation of price advances may be set in motion, it seems likely that permanent benefits to export trade may develop only gradually and that in the interim, increases of cost may prove something of a handicap to sales in competitive markets abroad.

Reflecting the improved demand for yarns, total forwardings of raw cotton rose in February to a weekly average rate of 51,400 equivalent 500-lb. bales, the highest since March 1938 and about 3,600 better than the rate in January. Forwardings of American cotton registered an average weekly increase of less than 1,100 bales and were about 2,000 bales less per week than in October. The share of American in total forwardings thus showed a further slight fall from January in keeping with the trend since about November. That current activity in spite of February's gains is, however, still at a relatively low level is apparent by comparison with average weekly forwardings of 53,200 bales (500-lb. equivalent) in February 1938 and 62,939 in February 1937. The falling off of mill takings from the previous season is shared by all of the more important growths except East Indians, forwardings of which at February 24 were about 17 percent ahead of those at the same stage of the season before.

#### France

Developments in the cotton situation in France during the first half of the present season, though not advantageous to American cotton, have on the whole turned out more favorably than was anticipated at the outset. Spinning mill occupation based on normal operation of machinery on a 40-hour single-shift week had fallen from 78.4 percent at the beginning of 1938 to 71.9 in July, while in manufacturing a similar decline from 80.7 percent to 75.1 had occurred. A voluntary but somewhat flexible arrangement for short time operation based on a 32-hour week was effected. Beginning about October, however, a substantial revival set in, which continued through all of the second quarter of the season. New orders booked in December were reported as exceeding the totals of those in December of 1937 by 44 percent in spinning and 33.8 in manufacturing. The index of activity had then risen to 79.8 for spinning and 82.4 for weaving and short-time arrangements were no longer operative. In most of the first quarter of 1939 the situation appears to have continued fairly favorable. In early March trade reports indicated that many French mills were booked ahead for several months.



Although it appears that in their endeavor to restore normal operating schedules, spinners and possibly also manufacturers have accepted considerable business at margins which are not very profitable, the position of the French industry at the end of the first half of the season may be regarded as moderately strong either by comparison with that in neighboring free-exchange countries or in relation to its own position earlier.

Buying for the larger metropolitan centers was said to be lagging, but demand from the provinces and from the colonies, possibly excepting those of Northern Africa, had been good. At the same time export sales to foreign countries though ordinarily taking but a small fraction of French production were reported as showing increases. In February, although a fair flow of orders was reported from the Normandy region, new textile business in contrast with preceding months and with February experience in the United Kingdom, was generally quiet. Most mills, however, had enough backlog of unfilled orders to keep them operating on a 40-hour or longer work week. Taking account of this circumstance and the known textile requirements for which orders had not yet been placed, reporters disclosed little apprehension for the immediate future, though events in Belgium were being watched for indications of currency devaluation measures, the effect of which would be to sharpen competition in the export field. Some reserve on the part of the French public in the matter of retail buying since the Mediterranean question became acute has been noted. This factor, it is thought, may have contributed to the more moderate pace of trade buying. Basic factors, in the French economic situation are reported to be maintaining on the whole their healthier condition.

### Spain

Should the civil conflict in Spain end in the near future, as is generally expected, an early resumption of mill activity and cotton consumption at a considerably higher level than for many months would seem very likely. Standing fifth among the raw cotton importing countries of Europe in the five years 1931-35, with average annual takings equivalent to about 440,000 500-lb. bales of which slightly more than 300,000 were American, and possessing at the end of that time some 2,070,000 spindles, Spain has imported and consumed comparatively little American or other cotton since the outbreak of hostilities in July 1936. However, with the establishment of Nationalist military supremacy in Catalonia, the predominant cotton mill region of Spain after many months of isolation has now been united with the whole of the territory under Nationalist control, in which at the end of February were included the major part of Spain's land area and the chief industrial centers. Reorganization of the cotton textile industry for normal production in those mills of this region remaining intact was expected to be one of the early accomplishments. Restoration of destroyed and damaged mills and equipment is also said to be projected.

Germany 2/

The latest reports on the German cotton textile industry in February and early March indicate that the activity of spinning mills continues on a high level. The textile industry employment index (1936 = 100) of occupied workers, presented in the Dresdner Bank bulletin, stood at 107.4, a record level, in December. The index average for the calendar year 1938 was 106.0, compared with 103.9 in 1937. The German textile industry at the present time employs about 1,200,000 workers.

Wholesale and retail trade reports indicate that consumer demand within the enlarged German Reich continues to be strong, but export demand for German textiles appears to be less active. The decreased value of German textile exports in 1938, compared with previous years, is shown as follows:

## German Textile Exports (all types)

<u>Year</u>	<u>:</u>	<u>Million dollars</u>
	:	
1936 .....		204
1937 .....		216
1938 .....		176

World market difficulties for German foreign trade in textiles, which again became especially noticeable in the spring of 1938, continued during the latter half of the year. Certain export gains in southeastern Europe and Latin America during this period were not sufficient to offset the losses in trade with England, Belgium, Holland, the Scandinavian countries, Switzerland and the United States. Although there was some improvement in the total raw material supply situation in 1938, and even though staple fiber production had risen to new peaks, the raw material problem then, as well as today, is a matter which has continued to give the enlarged German textile industry increasing concern.

The German trade drive into eastern and southeastern Europe has received more attention than usual in economic and trade papers recently. The "Textil-Zeitung" of February 18, 1939, for instance, devoted an entire special issue to the subject of past, present and future textile trade possibilities in Hungary, Rumania, Yugoslavia, Albania, Greece, Bulgaria and Turkey. Under the title of "100 to 300 Million Consumers" special emphasis was given to this area as a market out-  
for German textiles, though rather more attention was devoted to the historical and statistical trade aspects than to future considerations.

The Bremen Movement

Movements of all cotton in and out of Bremen were somewhat larger in February than they were during the preceding month, but definitely smaller than

2/ Information relating to Germany, the Netherlands, Poland largely supplied by the office of Loyd V. Steere, Agricultural Attache, Berlin.



in February 1938. Total receipts of American cotton since August 1, 1938, totaled only 290,000 bales up to February 25, 1939, or less than half the amount received at Bremen during the same period a year ago. There was a net decline of 17,000 bales in total stocks of cotton during the month of February.

Bremen receipts and withdrawals of cotton between August 1, 1938, and February 25, 1939, and stocks on hand on February 25, 1939, with comparisons

Type	Receipts			Withdrawals			Stocks		
	1938-39	1937-38	1936-37	1938-39	1937-38	1936-37	1938-39	1937-38	1936-37
	: 1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	: bales	bales	bales	bales	bales	bales	bales	bales	bales
American ...	290	582	419	293	465	388	146	220	146
East Indian:	25	13	25	27	16	38	7	3	8
All other...	283	268	237	311	280	238	59	35	40
Total ...	598	863	681	631	761	664	212	258	194
Total last month (Jan. 30) .....	540	801	624	554	695	591	229	264	209

Bremer Baumwollbörse.

#### NETHERLANDS

The production indices of the cotton spinning mills, published in a report by the Netherlands Statistical Office, indicate that production rose slightly during the final quarter of 1938, reaching 106, from 99, the figure during the previous quarter (1929 = 100). There were corresponding index figure increases in the hosiery and wool industries. This improvement in certain categories of Holland's textile industry during the final quarter of 1938 did not, however, extend upward to a level as high as that attained during the first quarter of 1938, according to this report.

The Netherlands imported the equivalent of 25,500 478-pound bales of raw cotton during January 1939, of which 11,500 bales were of American origin. Net imports from August 1, 1938 to January 31, 1939 totaled 131,700 bales, compared with 144,000 bales for the corresponding period in 1937-38 and 124,000 bales for the August-January period of 1936-37.

A news note appeared in the February 17 issue of the "Textil-Zeitung" to the effect that Holland has placed a ban on the erection of any new plants in the cotton hosiery industry.

#### POLAND

Probably the most interesting recent news in Polish textile centers was the official confirmation of earlier reports of the granting by the Export-Import Bank of Washington, D. C., through certain New York banks, of a

loan of \$6,000,000, guaranteed by the National Economic Bank of Poland, for the purchase of American cotton and copper. It was stated at the time that approximately one-third of this sum had already been allocated for cotton purchases.

Greater Germany occupied first place in Polish foreign trade in 1938 both as an importer and as an exporter, being followed by Great Britain and the United States. The extension last fall of an industrial credit of 120,000,000 zlotys (\$22,800,000 at the current official rate of exchange) by Germany to Poland, as well as other commercial arrangements have tended to bring Poland more and more into the orbit of the closed economic system of its western neighbor. The present year may conceivably see Germany accounting for from 40 to 50 percent of the turnover of Polish foreign trade. Poland is, however, making efforts to increase trade with other countries. The Polish-Lithuanian trade agreement, which went into operation this year and which provides for the exchange of goods worth approximately \$2,000,000 was followed on February 19, 1939, by the signing of a general trade agreement between Poland and the U.S.S.R. This new agreement with the Soviet Union provides for an equal exchange of goods through clearing channels, and will extend over a period of one year. It will be automatically renewed unless it is previously denounced by one, or both, of the parties to the agreement. It is hoped by Soviet-Polish trade authorities that trade between the two countries will be considerably expanded.

According to press reports Poland is also negotiating at the present time a timber-for-cotton barter deal with Egypt. There are intimations in the press that Poland is considering the creation of a cotton plantation in Brazil in order to reduce some of the difficulties, chiefly from the standpoint of foreign exchange, now involved in obtaining raw cotton. The Brazilian district of Sao Paulo is under consideration because, it is stated, there is a colony of Poles in that region and it could furnish the required labor and management for such an undertaking.

### ITALY 3/

Except for a slight improvement reported in some quarters in the activity of the Italian cotton mills, the situation in the Italian cotton trade appears to have differed little during February from that existing in the preceding month. The domestic market for cotton goods apparently quickened slightly and the distribution by the Cotton Institute of a moderate allotment of foreign exchange for the purchase of cotton to be made into goods for domestic consumption offered some encouragement to brokers. Foreign markets were pursued vigorously. Apparently, shipments of cotton goods to Egypt increased even though no settlement was reached in the dispute concerning the quotas of Italian cotton goods to be admitted into Egypt during 1939.

3/ Information received from the American Consul General at Milan.



Cotton textile exports in January totaled 33 percent less in quantity and nearly 50 percent less in value than one year before. The chief markets were Switzerland, Egypt, Morocco, Germany and Albania. The outstanding reduction in this trade occurred in shipments to Argentina, which dropped more than 99 percent. Exports (in weight) to Egypt declined by about 60 percent and shipments to the United States dropped nearly 40 percent.

Cotton yarn exports increased by about 42 percent in amount, and nearly 18 percent in value. They were shipped in both years chiefly to Yugoslavia and Rumania to both of which destinations exports increased during the month under review. Other large recipients were Spain, Turkey, Bulgaria, and Germany.

The demand for raw cotton appears not to have improved materially and will hardly be affected by the distribution of exchange for raw cotton for domestic consumption which will be largely consumed in paying for deliveries on old contracts. New business is small and the outlook not encouraging. Offers from American cotton dealers continue to decline and brokers claim that they are frequently unable to satisfy the demands of would-be buyers because their American principals are not in position to furnish the particular types of cotton desired.

Prices of Brazilian cotton as recently quoted in the Milan market are reported to be from 80 to 100 points lower than equivalent qualities of American cotton. This is said to be one reason for the relatively large sales of Brazilian cotton to Italian spinners.

A proposal - emanating from Rome - appears recently to have been considered by the authorities interested in the new buying concern to purchase substantial quantities of Peruvian cotton, but it is believed that it has been dropped for the present, owing to the preference of buyers for other types of cotton. While details of the proposed negotiations are not known, the impression prevails that a barter deal of some kind was contemplated. Perhaps it may be taken up again when the new concern is ready for operation.

Two allotments of foreign exchange for the purchase of raw cotton to be used in the manufacture of textiles and other products for consumption within Italy were made during February, one early in the month and the other at its close. Each totaled about \$1,300,000 and both together are estimated to be enough to pay for some 10,000 tons, or roughly 40,000 average bales of raw cotton. While very welcome to Italian cotton-mill owners, the development has brought, or will bring, very little new business to cotton brokers, it is asserted, since most of the exchange will be needed to pay for deliveries on old contracts that have been delayed up to this time owing to the insufficiency of foreign exchange with which to pay for them. The new supplies of raw cotton will enable manufacturers to enlarge their output of mixed textiles for the Italian market. They have been, it will be recalled, forbidden to produce pure cotton goods for consumption within Italy since January 1, 1939.

Details have not yet been published concerning the organization of the new State-controlled concern to purchase raw cotton for Italian mills and brokers assert that the arrangements for its operation have not been completed. Evidence to this effect is seen in the recent distribution of foreign exchange to be used in the purchase of raw cotton for domestic consumption above referred to, as it had been assumed that this exchange would be turned over to the new concern for its use in making these purchases. It would now seem that the actual operation of the concern is not contemplated for some time to come.

U.S.S.R. 4/

The third 5-year plan recently submitted for official approval provides for a considerable increase in cotton textile production. Production of cotton fabrics is to reach 5,350,000,000 yards by 1942, which is indicated to be an increase by 42 percent as compared with 1937. This increase would be larger than that planned for raw cotton production and may be intended to correct the present discrepancy between raw cotton production and the manufacturing capacity of the industry. The considerable organizational difficulties which have been evident in the cotton textile industry during the past 2 years and which have prevented the execution of the production plan in 1937 and 1938 will have to be overcome in the near future if the 5-year goal is to be realized.

The third 5-year plan in the cotton textile industry further aims at correcting the disproportion existing between the spinning and the weaving branches. Additional and more modern preparing, spinning and weaving machinery (including automatic looms) is to be installed. The planned large expansion of domestic production of textile machinery, apart from imports, will enable this enlargement and modernization of textile plant equipment. A new large cotton textile center will be created in Asiatic Russia which is to be supplied with cotton from Middle Asia by way of the Turkestan-Siberian railroad ("Turksib").

A trade and clearing agreement has been concluded recently between the U.S.S.R. and Poland providing for delivery by the Soviet Union of various raw materials in exchange for the products of Polish mining and manufacturing industries. The list of goods to be exported to Poland by the U.S.S.R. is headed by raw cotton and cotton waste, while Poland, among other items, will export to Russia textile goods and textile machinery.

The exportation of Russian cotton as provided for by this agreement comes hardly as a surprise, in view of the previously reported accumulation of considerable surpluses of raw cotton in the Soviet Union during the past 2 years.

ORIENT: Indian mill consumption continues at record high:  
Japanese and Chinese unusually low

The 270,000 bales (of approximately 400 pounds net weight) of Indian cotton consumed by Indian mills in February was 16 percent larger than consumption in February last year, the previous high for the month. This made the 20th consecutive month in which Indian mill consumption of Indian cotton (and probably



the consumption of all cottons) exceeded that of any previous corresponding month and brought the total for the 7 months ended in February to 1,880,000 bales. This total was 10 percent above the previous record high established last season. Despite the high level of consumption during the last 5 months of last season, it is expected that Indian mills will continue to use more cotton than a year earlier throughout most, if not all, of the last 5 months of the season. Total mill consumption in Indian therefore should easily exceed that of any preceding season.

In Japan, mill consumption of cotton appears to have shown a slight decline from January to February due entirely to the fewer number of working days. The reported production of cotton yarn indicates that mills belonging to the Japanese Cotton Spinners Association (which represent 96 or 97 percent of the total spinning capacity of all Japanese mills) consumed slightly over 200,000 equivalent bales of 478 pounds net during the month of February. This makes the seventh consecutive month in which consumption in these mills has been between 198,000 and 208,000 bales. During this period, however, consumption has been from one-sixth to two-fifths smaller than in the corresponding months last season. In February consumption was about one-sixth less than a year earlier, one-third less than the record high February consumption of 1937 and the smallest for the month since 1931, or in 3 years. The total from August through February of 1,425,000 bales is almost one-third less than a year earlier and the smallest for the period in 8 years.

The reduced Japanese consumption is apparently due to a combination of several factors. These include: (1) Japanese Government regulations with respect to the use of and the restricted quantity of foreign exchange along with the greater emphasis placed on products considered more essential in conducting military activities in China; (2) Government decrees prohibiting the sale of pure cotton goods in Japan, Manchuria and those parts of China under Japanese control; and (3) reduced exports of cotton textiles from Japan apparently due in part to anti-Japan sentiment. In February, Japan exports of cotton cloth totaled only 118 million square yards compared with 184 million in February last year. This was only a little over half as large as the record high February record established in 1935 and the smallest for the month since 1932. Total cotton cloth exports for the first 7 months of the current cotton marketing season was about one-fifth less than a year earlier and the smallest for the period since 1931-32.

Imports of cotton into Japan during February showed little change and continued substantially below the 5-year average for both American and Indian. American apparently continued to be affected by the shortage of available supply of long staples and high grade A. Considerable quantities of old crop Brazilian cotton continued to arrive. Much of the cotton was used as substitute for good grade American not easily obtainable and inquiries for Brazilian by customary users of American continued active. Trade figures indicate that 1,800 bales of Chinese cotton arrived during the month, and it is believed that imports for the season will not approximate the high figures which have frequently been mentioned.

Yarn production for the month was slightly less than in January due to decrease of working days. Decrease in proportion of coarse yarns was noted in line with the policy of promoting exports of finer grades of cloth in preference to grey cloth. There are no indications as to whether an early reduction in yarn output will take place.

Serious reverses in cotton cloth quotations during the month offset gains made during January and put prices back to levels of late November. This decline is attributed to sales difficulties in numerous foreign markets, especially India and Rangoon, and to an increase in stocks of consignment cotton cloth in several countries. There appears little to warrant optimism in the Japanese cotton textile outlook. Many exporters expect a further decline unless restrictions on shipments to those areas in the Yen bloc are removed.

Under date of February 23, the Japan Cotton Spinners Association formed an export promotion association, the formal organization to take place in March. The purpose is to prevent over-production of the types of low grade cloth which threatens to demoralize the export market, control stocks of export yarn and cloth, and advance profitable sales of Japanese cotton cloth abroad. This organization may become an integral part of the link system in the role of the sales agent for export cloth trade. This indicates an increase in centralization of the industry and the greater delegation of Governmental administrative powers to Japan Cotton Spinners Association.

It is estimated that in February cotton mill consumption in China and Manchuria totaled about 135,000 bales. This is considerably smaller than the 150,000 bale estimate for January which was the highest for any month since immediately following the outbreak of hostilities with Japan in July 1937. The estimated consumption for the first 7 months of the season of 965,000 bales is considerably larger than in the corresponding period last season but probably the smallest with that exception since 1928-29.

#### ACREAGE, PRODUCTION, STOCKS AND SUPPLY

##### "Free" American cotton small despite record high United States stocks

On March 1 domestic stocks of American cotton totaled a little less than 16-3/4 million running bales. This was nearly 2 million bales larger than a year earlier, the previous record high as of that date and 54 percent larger than the average for the past 10 years. The total this year was nearly a fourth larger than on March 1, 1933. Approximately 11-1/4 million bales or 67 percent of the total domestic stocks of American cotton as of March 1 this year consisted of Government loan stocks. Consequently, domestic stocks of "free" American cotton on that date totaled only about 5-1/2 million bales, compared with a little less than 8-1/4 million bales on March 1st last year and an average of 7,350,000 bales for the same date the last 10 years. With the exception of 1935 and 1936, current stocks, excluding Government loan stocks are the smallest for any corresponding date since 1924 or in 15 years. If stocks held by domestic consuming establishments are deducted from the so-called "free" stocks, the remaining quantity on hand as of March 1 this year is the second smallest since prior to 1924. The estimated total world stocks of "free" American cotton, including mill stocks, as of March 1 this year, of about 7-1/3 million bales, was 3-3/4 million bales less than a year earlier, the record smallest in more than 15 years and 32 percent less than the March 1 average for the preceding 10 years.

The Commodities Credit Corporation received reports through March 23 of the total of 4,384,000 bales of the 1938 crop as having been pledged on Government loans. As of that same date repayments for about 27,000 bales has been reported. The net increase in the reported Government loan stocks during the 4 weeks ended



March 23 was 76,000 bales compared with 200,000 bales in the preceding 4 weeks. During the week ended March 23 the increase was 20,000 bales, and the total Government loan stocks as of March 23 were 11-1/3 million bales compared with 6-2/3 million bales at the end of March last year.

U.S.S.R. 4/: Crop at record high, plan calls for further marked increase

An estimate of the 1938 Russian crop is still not available, but the yield per acre of irrigated cotton has been placed at 2 percent above the yield as reported for 1937. This yield would - on a slightly reduced acreage - point to a crop about the same or somewhat in excess of the 3,782,000 bales of 478 pounds of ginned cotton reported as having been harvested in 1937, the largest crop ever produced in the Soviet Union.

The third 5-year plan, which is only now submitted for official approval, although its first year has already elapsed, provides for a further significant increase in raw cotton production. The recently published outline of the plan indicates that 32.9 million metric quintals of unginced cotton, 4,700,000 bales ginned, are to be produced by 1942. This would be an increase by over 30 percent as compared with 1937, the end of the second 5-year period. During the 5 years 1932 to 1937 raw cotton production had doubled.

It may be of interest to note that the officially planned increase in cotton production, 1937 to 1942, by over 30 percent is much below the rate indicated in earlier tentative discussions of the third 5-year plan. Figures of 5,700,000 bales to 8,300,000 bales of ginned cotton had been mentioned as the possible goals for 1942, which would have meant an increase by 50 and 120 percent, respectively, over production in 1937.

As yet no details of the third 5-year plan are available, and the published outline does not contain any information as to the planned trend in cotton acreage. Previous discussions reported in the press indicated that a large expansion in the acreage of non-irrigated cotton is to take place, and that this acreage should reach 2,471,000 acres by 1942, compared to an area of 1,300,000 acres planted in 1937. The total acreage planted to cotton in 1937 amounted to 5,160,000 acres. However, the plans regarding yields appear to indicate that yields and not acreage are to be the main factor in bringing about the planned increase in the total cotton crop.

4/ Information from the Belgrade office of the Foreign Agricultural Service.

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